

## Message Text

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ACTION AF-06

INFO OCT-01 IO-10 ISO-00 EB-07 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05 NSC-05

SS-15 STR-01 CEA-01 L-02 H-01 PRS-01 PA-01 USIA-06

INT-05 FEA-01 GSA-01 /099 W

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FM AMEMBASSY LUSAKA

TO SECSTATE WASHDC 1241

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GENEVA FOR MTN DELEGATION

EO 11652: N/A

TAGS: EFIN, ZA

SUBJECT: 1975 BUDGET SPEECH OF MINISTER OF PLANNING AND FINANCE

REF: LUSAKA 2486

1. IN BUDGET SPEECH PRESENTED TO NATIONAL ASSEMBLY  
JANUARY 31, MINISTER OF PLANNING AND FINANCE CHIKWANDA  
ANNOUNCED PROJECTED CY 1975 EXPENDITURES OF K755.5  
MILLION AND REVENUE OF K644.1 MILLION LEAVING BUDGETARY  
DEFICIT OF K111.4 MILLION (ONE KWACHA EQUALS 1.56 DOLLARS).  
ON EXPENDITURE SIDE, CAPITAL INVESTMENT WILL BE K240.1  
MILLION, RECURRENT SPENDING K435.9 MILLION. (COMPARATIVE  
ACTUAL FIGURES FOR 1974 WERE K165.4 MILLION CAPITAL  
EXPENDITURE, K424.1 MILLION RECURRENT, AND REVENUES  
OF K682.9 MILLION, LEAVING SURPLUS OF K93.4 MILLION.)  
CHIFZANDA LATER TOLD PRESS "WE INTEND TO COVER  
DEFICIT BY FURTHER INTERNAL AND EXTERNAL BORROWING  
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AND WE MIGHT GO TO IMF." OF PROJECTED 1975

REVENUES, K86.2 MILLION WILL COME FROM EXTERNAL RESOURCES ALREADY IN HAND (IBRD LOANS, US PROGRAM LOAN, ETC.).

2. ASSUMING COPPER SALES OF 650,000 TONS AT AN AVERAGE PRICE OF K820 (ABOUT 590 POUNDS STERLING), THE BUDGET PROJECTS AN OVERALL BALANCE OF PAYMENTS DEFICIT OF K96 MILLION. IMPORTS FOR YEAR ARE PROJECTED AT K520 MILLION OF WHICH K51 MILLION WILL BE FOR PETROLEUM AND ABOUT K22 MILLION FOR WHEAT.

3. CHIKWANDA ESTIMATE  
GDP REAL GROWTH IN 1973

WAS 0.3 PERCENT AND SAID PERFORMANCE IN 1974 "HAS HARDLY BEEN BETTER."

4. MAJOR NEW EMPHASIS IN BUDGET IS ON AGRICULTURAL INCENTIVES. GRZ PLANS TO SPEND K33.1 MILLION ON FERTILIZER SUBSIDIES. OF MAJOR IMPORTANCE TO EXPATRIATE COMMERCIAL FARMERS, PERMISSION NOW GIVEN THEM TO BORROW MONEY LOCALLY WITHOUT RESTRICTION PROVIDED THEY YZEK AGREEMENT OF BANK OF ZAMBIA. EXPATRIATE FARMERS MAY ALSO NOW REMIT ANNUALLY TEN PERCENT OF THEIR PROFITS AND ACCUMULATE ANOTHER TEN PERCENT FOR REMITTANCE ON RETIREMENT.

5. WIDELY ANTICIPATED AUSTERITY MEASURES DID NOT MATERIALIZE. OF ESSENTIAL COMMODITIES ONLY PRICE OF SUGAR WAS RAISED, BY 8 NGWEE PER KILO (ONE NGWEE EQUALS 1.56 CENTS). GASOLINE TAX INCREASED BY 4 NGWEE PER LITRE AND TAXES ON BEER 2 NGWEE PER BOTTLE, CIGARETTES FROM 4 TO 10 NGWEE PER PACK OF 20 DEPENDING ON QUALITY, AND SOFT DRINKS 2 NGWEE PER BOTTLE. TOTAL INCREASE IN REVENUE FROM THESE MEASURES WILL BE ABOUT K15 MILLION. IMPORT DUTIES ON ALCOHOL AND TOBACCO ALSO RAISED. UNEXPECTEDLY, CHIKWANDA ANNOUNCED LOWER IMPORT DUTIES ON AUTOMOBILES AND ELIMINATION OF LICENSE FEES FOR RADIOS AND TELEVISION SETS. IN EFFORT TO ENCOURAGE ZAMBIANIZATION, MINISTER LIMITED OFFICIAL USE

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PROPOSED 5 PERCENT TAX TO BE PAID BY EMPLOYERS ON SALARIES OF NON-ZAMBIANS.

6. IN SIGNIFICANT HEDGE, MINISTER CONCLUDED WITH REMARK THAT IF ECONOMIC SITUATION CHANGES FOR WORSE, HE EXPECTS SUPPORT FOR ADDITIONAL AUSTERITY MEASURES.

7. CHIKWANDA'S DESCRIPTION OF THE SERIOUS ECONOMIC

DIFFICULTIES FACING ZAMBIA WERE NOT REFLECTED IN THE MEASURES PROPOSED. ZAMBIANS GENERALLY EXPECTED AN AUSTERITY BUDGET WITH INCREASES ON PRICES OF ESSENTIAL COMMODITIES AND CLEARED FOOD SHELVES IN STORES PRIOR TO BUDGET SPEECH. THOUGH ACCLAIMED "WITH RELIEF" BY THE MEDIA, BUDGET WAS CRITICIZED BY BACKBENCHERS IN PARLIAMENT FOR NOT REVEALING THE SERIOUSNESS OF THE COUNTRY'S ECONOMIC SITUATION AND FOR NOT ADOPTING NEEDED MEASURES. GRZ WAS STUNG BY POPULAR OUTCRY FOLLOWING NOVEMBER PRICE INCREASES WHICH WERE LATER RESCINDED (REFTEL). IT IS LIKELY THAT RATHER THAN RISK ANOTHER SIMILAR RESPONSE BY ANNOUNCING AN AUSTERITY PROGRAM, THE GRZ WILL SEEK BELT-TIGHTENING ON PIECemeAL BASIS OVER COMING MONTHS, ESPECIALLY IF GRZ ENCOUNTERS DIFFICULTIES IN BORROWING SUBSTANTIAL AMOUNTS ABROAD OR COPPER PRICES REMAIN SIGNIFICANTLY BELOW THE ASSUMED PRICE OF K820 PER TON (CURRENT PRICE IS K752). GENERAL CONCENSUS AMONG OUR CONTACTS SO FAR IS BUDGET IS "STRICTLY POLITICAL" AND REAL AUSTERITY OVER COMING MONTHS CANNOT BE AVOIDED.

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